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Metro Washington Market Perspective

December 2006



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2007 President

Greater Washington Commercial
Association of REALTORS®



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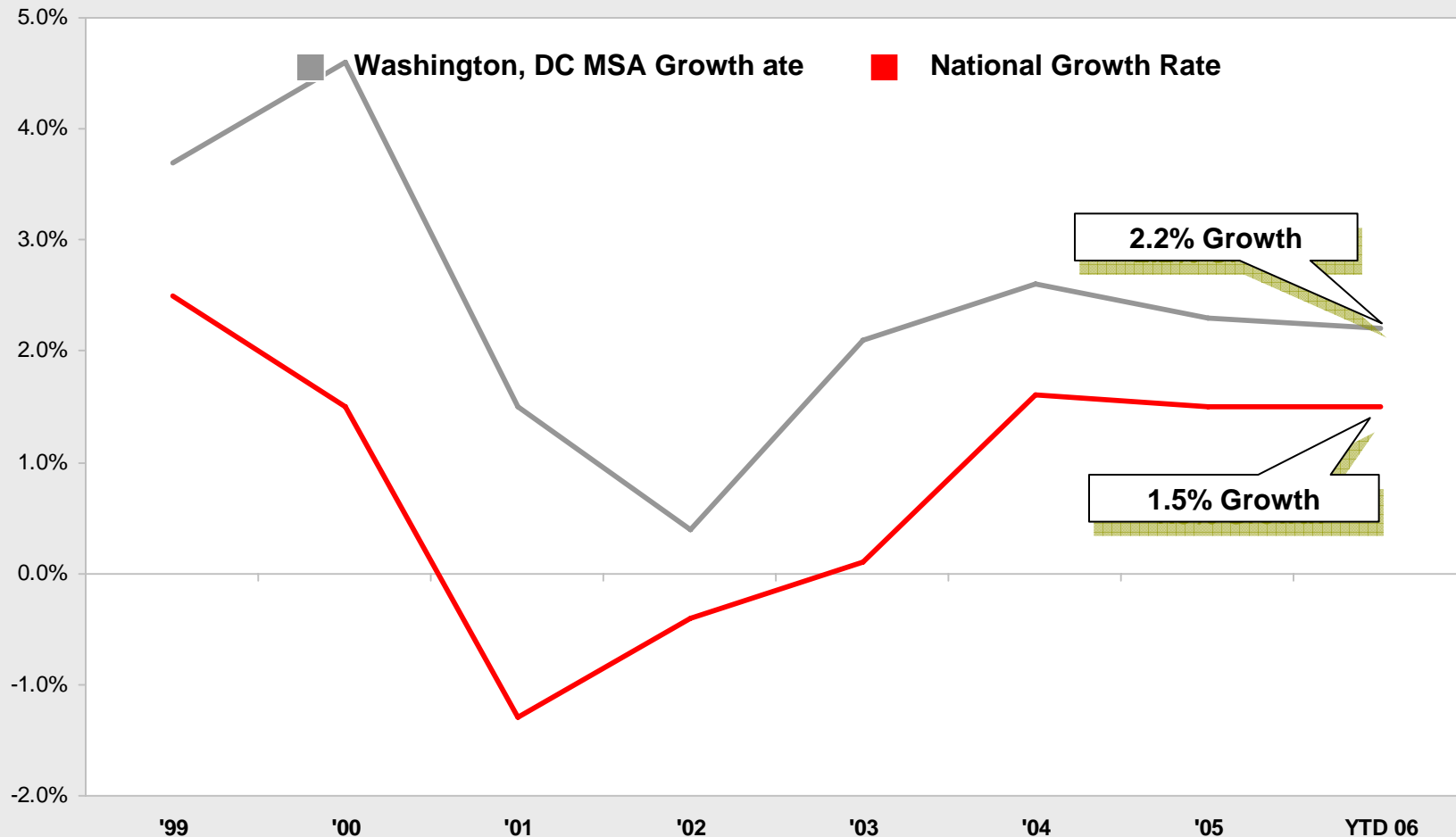


Annual Employment Growth Rates

Washington, DC MSA vs. US Market

The Metropolitan DC area has led the nation in job growth the past several years. In the 12 months ending October 2006, 65,100 total non-farm jobs were added to the local economy.

Percent



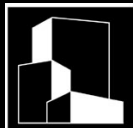
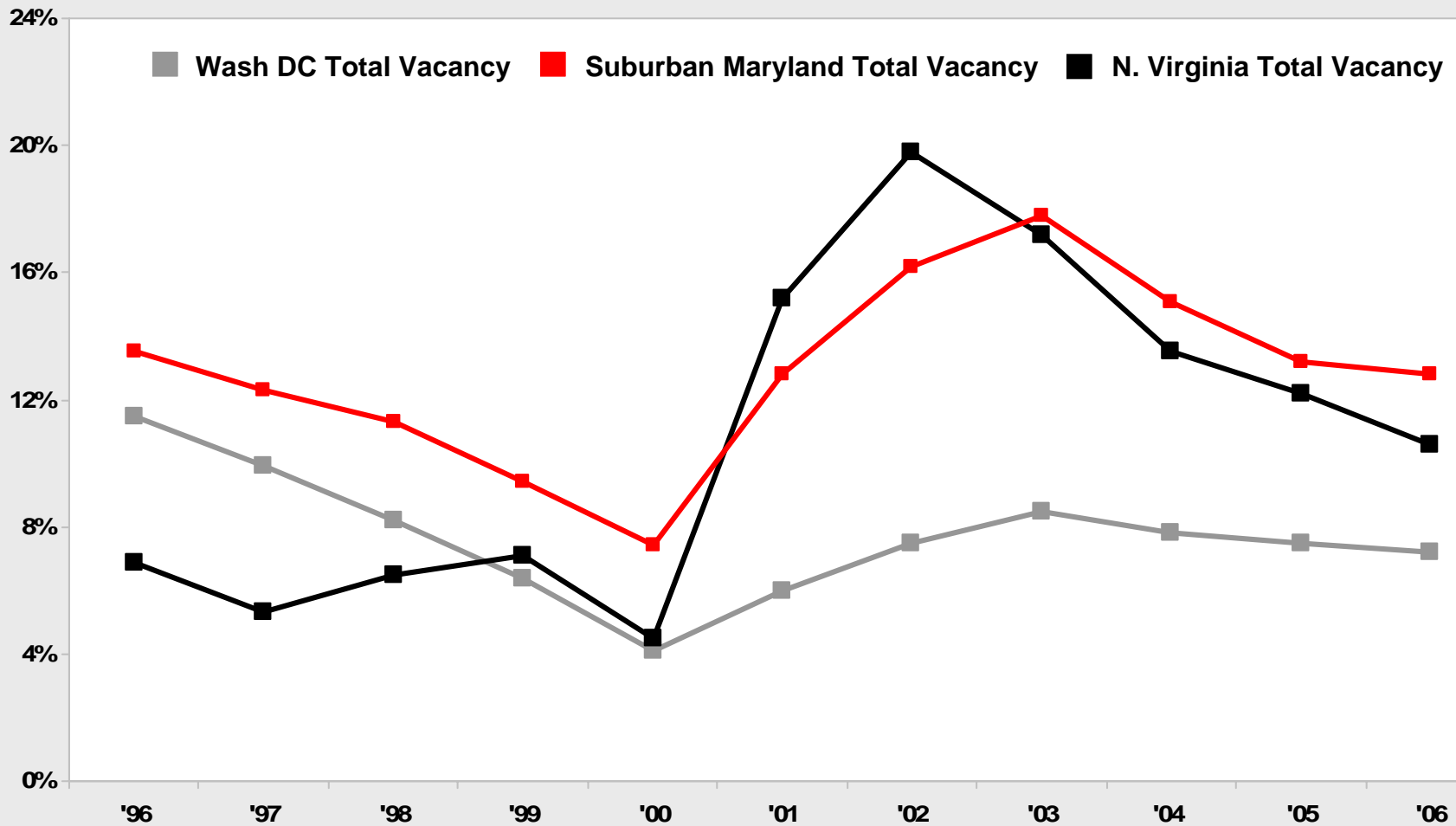
Source: Bureau of Labor Statistics, based on total non-farm employment



Regional Perspective

Metro Washington, DC Market

Percent



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Metropolitan Washington

Market Dynamics



The Numbers

- Metro: 296.4 MSF market
 - 8.1% prime vacancy rate
- The District: 101.0 MSF market
 - 5.8% prime vacancy rate
- Northern VA: 134.2 MSF market
 - 8.8% prime vacancy rate
- Suburban MD: 61.2 MSF market
 - 10.3% prime vacancy rate

Looking Ahead

- Metro DC area will absorb more than 8 MSF in 2006, surpassing the '05 total of 6.9 MSF
- Development remains rampant with 13.4 MSF under construction and only 35% was preleased at the end of the third quarter



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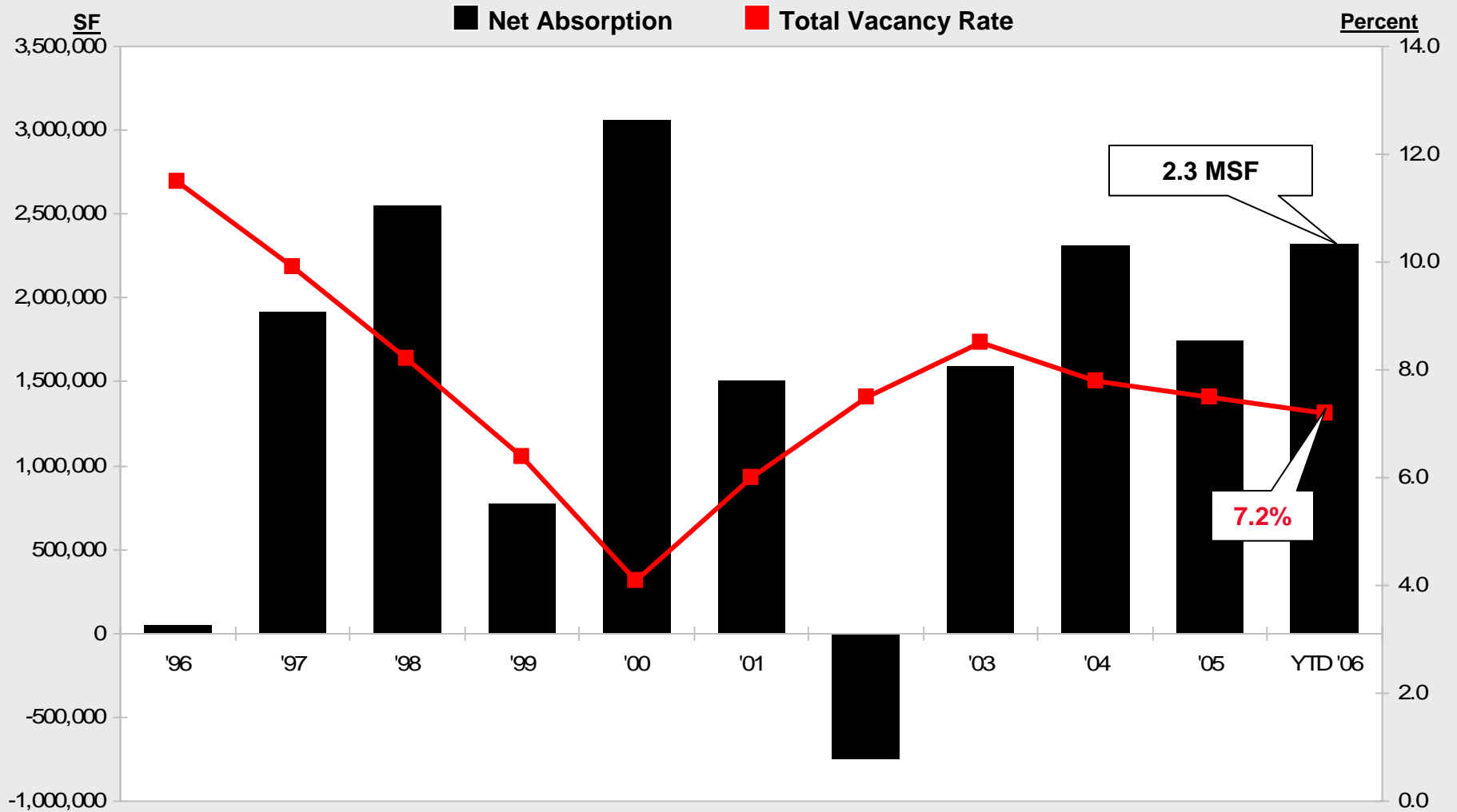


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Washington, DC

Market Dynamics



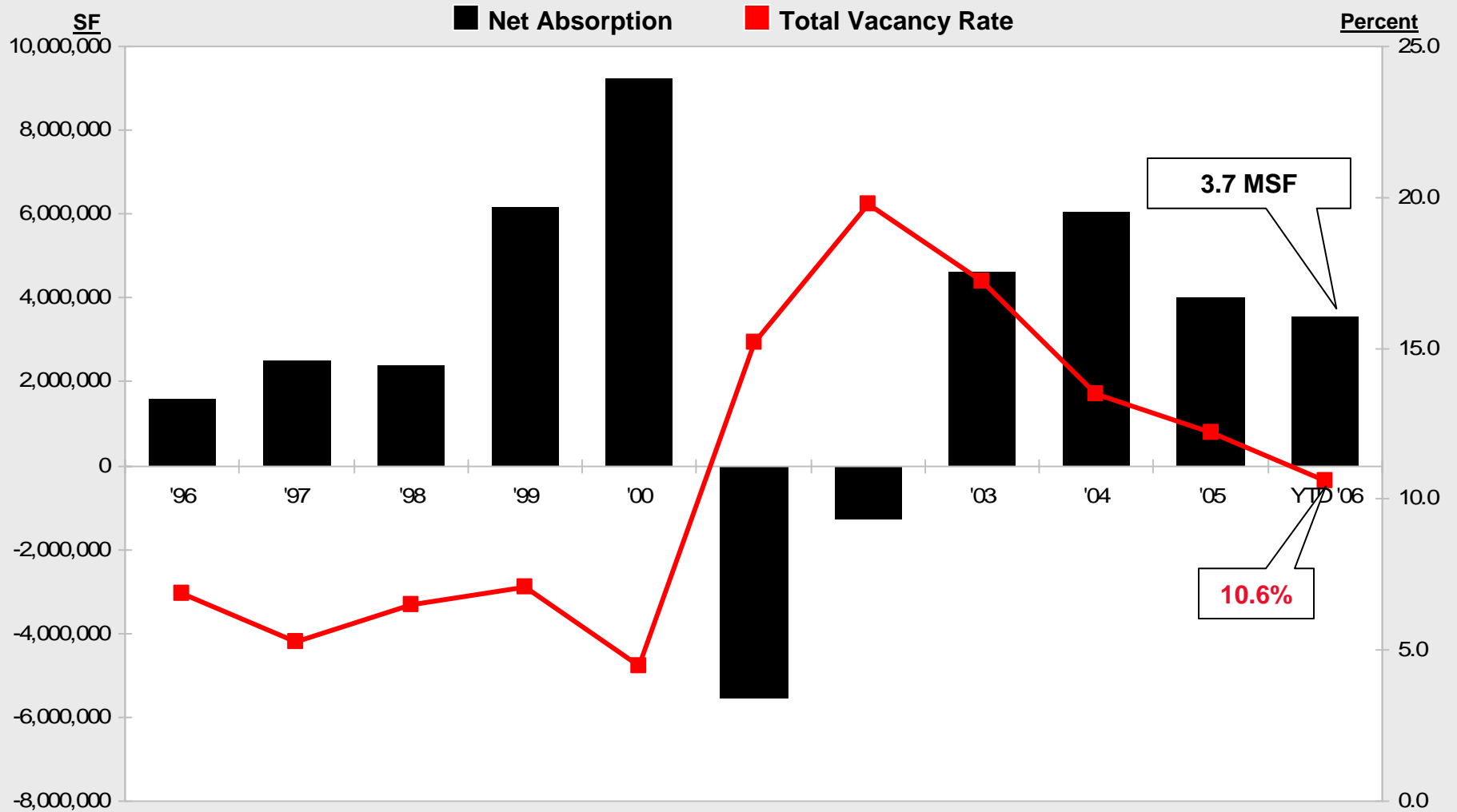
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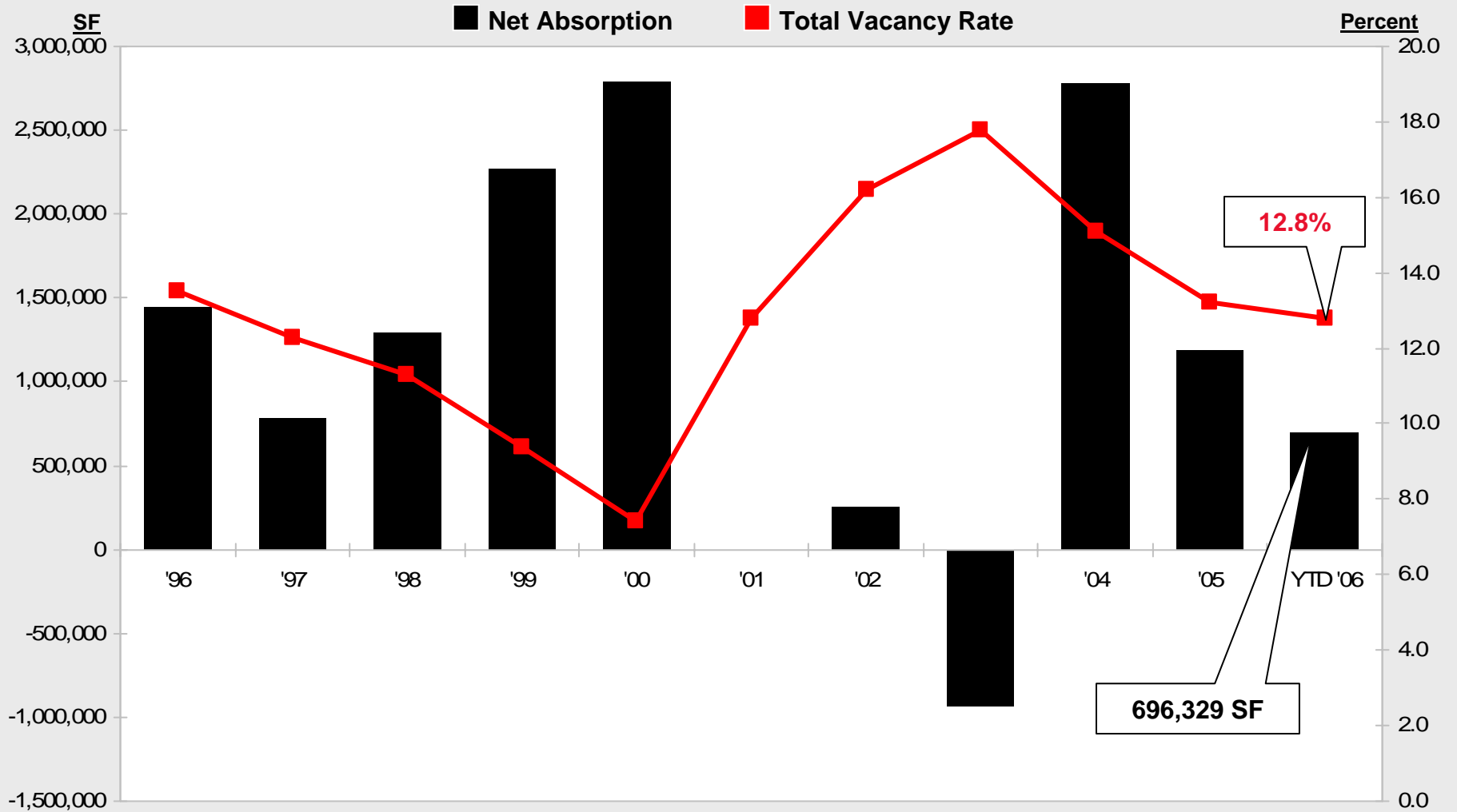
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Northern Virginia Market Dynamics



Suburban Maryland Market Dynamics



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Washington, DC

Outlook For 2007



Market Conditions

- Private sector demand and activity driving the market. Federal activity picked up slightly in '06, but do not expect much over next 18 months with recent midterm election outcome and change of administration.
- Demand for Trophy space is unmatched driving vacancy down to 3.1% for that market
- Rental rates continue to establish record highs, increasing by more than 10% in most markets over past 12 months
- Limited availabilities in CBD and East End have caused increased redevelopment activity

Looking Forward

- Minimal demand from Federal Government (excluding renewal activity) could lead to oversupply in NoMa and SW with additional deliveries
- Undersupply in Trophy market? Razor thin vacancies and high preleasing levels in developments will undoubtedly lead to further development in this segment of the market
- Demand from the private sector will continue to force up rental rates in all segments of the market.
- What will B & C tenants do with \$40-\$45 psf rents for that market next year?



Northern Virginia

Outlook For 2007



Market Conditions

- ◆ Fed Government & government contractors continue to drive demand (more than 50% of activity), but contractor demand is slowing
- ◆ Telecom and Tech firms starting to scout the market and increase space requirements
- ◆ Increase in federal spending, particularly defense spending carrying the market. How will slowdown in spending play out?
- ◆ Increasing development pipeline 6.3 MSF under construction, 26% pre-leased

Looking Forward

- ◆ Concern of slowdown in government spending in next several years
- ◆ Concern regarding BRAC implementations and DOD security setbacks (possible for defense contractors)
- ◆ Rental rates will continue to achieve record highs in certain areas, while concession packages decrease
- ◆ Developers need to be cautious in starting new spec projects



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Suburban Maryland

Outlook For 2007



Market Conditions

- ◆ Silver Spring and Bethesda CBDs and Class A demand driving market
- ◆ 2006 has seen few large deals, 2007 will be different with several large users out in market with '07 requirement
- ◆ “Flight-to-quality” continues to strengthen the up-county submarkets

Looking Forward

- ◆ Abundance of small options but limited number of existing options for tenants over 50,000 SF
- ◆ Rental rates slowing after 18 months of increases
- ◆ Can the market benefit greatly from soaring rents and costs in the District? Some tenants have moved, but not large influx yet
- ◆ When will Class B rehabs begin in Bethesda and Class C rehabs in Silver Spring?



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For More Information...

✓ Market Overview is sent to you quarterly from GWCAR

✓ Look for your invitation coming soon to GWCAR's annual State of the Market event – February 2, 2007

✓ Visit www.GWCAR.org



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